

B U S I N E S S S I T U A T I O N

Larry R. Moran prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

THE "FINAL" estimate of growth in real gross domestic product (GDP) for the second quarter of 1995 is 1.3 percent, 0.2 percentage point higher than the "preliminary" estimate reported in the August "Business Situation" (table 1).¹ Revisions to the components of GDP were small;

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1987 dollars and are based on 1987 weights.

Table 1.—Revisions to Real Gross Domestic Product and Prices, Second Quarter 1995

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	1.1	1.3	0.2	2.6
Less: Exports of goods and services	6.1	6.6	.5	.8
Goods	8.5	8.9	.4	.1
Services	-1.5	.2	1.7	.7
Plus: Imports of goods and services	9.5	9.9	.4	.7
Goods	11.7	12.4	.7	1.2
Services	-3.1	-5.2	-2.1	-.6
Equals: Gross domestic purchases	1.7	1.9	.2	2.5
Personal consumption expenditures	3.4	3.4	0	0
Durable goods	2.9	3.5	.6	.9
Nondurable goods	2.0	1.9	-.1	-.4
Services	4.3	4.2	-.1	-.4
Fixed investment	5.5	5.0	-.5	-.13
Nonresidential	11.8	11.3	-.5	-.10
Structures	10.1	9.0	-1.1	-.4
Producers' durable equipment	12.3	11.9	-.4	-.6
Residential	-13.2	-13.7	-.5	-.3
Change in business inventories .....	.....	.....	.....	1.6
Nonfarm .....	.....	.....	.....	1.3
Farm .....	.....	.....	.....	.2
Government purchases	-8	.2	1.0	2.3
Federal	-4.9	-2.9	2.0	1.7
National defense	-2.9	.2	3.1	1.7
Nondefense	-8.6	-8.6	0	0
State and local	1.6	2.0	.4	.6
Addenda:				
Final sales of domestic product	2.5	2.6	.1	1.0
Gross domestic purchases price index (fixed weights) ¹	3.0	3.2	.2	.....
GDP price index (fixed weights) ¹	2.8	2.8	0	.....

1. Based on 1987 weights.

NOTE.—Final estimates for the second quarter of 1995 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for June.
Nonresidential fixed investment: Revised construction put in place for May and June, revised manufacturers' shipments of equipment for June, and revised shipments of complete civilian aircraft for June.

Residential investment: Revised construction put in place for May and June.

Change in business inventories: Revised manufacturing and trade inventories for June.

Net exports of goods and services: Revised merchandise exports and imports for June and revised exports and imports of services for the quarter.

Government purchases: Revised State and local government construction put in place for May and June.

Net interest: Financial assets held by households for the quarter and net interest from the rest of the world for the quarter.

Corporate profits: Revised domestic book profits and profits from the rest of the world for the quarter.

GDP prices: Revised housing prices for the quarter and newly available export and import prices for the quarter.

consequently, the general picture of the economy is little changed from that reported in August: GDP increased less in the second quarter than in the first. Change in business inventories decreased sharply in the second quarter after increasing slightly in the first; nonresidential fixed investment increased less than in the first quarter; and residential fixed investment decreased more than in the first quarter. In contrast, personal consumption expenditures (PCE) increased more in the second quarter than in the first; net exports decreased less than in the first quarter; and government purchases increased slightly after decreasing.

The largest upward revisions to second-quarter estimates were to government purchases, \$2.3 billion, and to change in business inventories, \$1.6 billion. The largest downward revision was to nonresidential fixed investment, \$1.0 billion. In government purchases, the upward revision was in national defense and in State and local government. In change in business inventories, the upward revision was more than accounted for by inventories of durable goods other than motor vehicles held by merchant wholesalers. In nonresidential fixed investment, the downward revision was about evenly divided between structures and producers' durable equipment (PDE); within PDE, the revision was more than accounted for by computers and peripheral equipment.

The final estimate of real gross domestic purchases shows a 1.9-percent increase, 0.2 percentage point higher than the preliminary estimate.

The final estimate of the fixed-weighted price index for gross domestic purchases shows an increase of 3.2 percent, 0.2 percentage point higher than the preliminary estimate. The final estimate of the GDP price index shows an increase 2.8 percent, the same as the preliminary estimate.

BEA has changed some of the release dates for NIPA estimates in order to accommodate an earlier release of information from the upcoming comprehensive NIPA revision (see box on page 34).

The decrease in real disposable personal income was unrevised at 1.1 percent; an upward revision to current-dollar disposable income was offset by an upward revision to the PCE implicit price deflator. The personal saving rate was unrevised at 4.0 percent.

Alternative measures.—In the second quarter, both of BEA's alternative measures of real GDP—the chain-type annual-weighted measure and the benchmark-years-weighted measure—increased 0.7 percent (0.2 percentage point higher than the preliminary estimates), 0.6 percentage point less than the fixed-1987-weighted measure of real GDP (table 2). The difference between

Table 2.—Fixed-Weighted and Alternative Quantity and Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1987=100)]

	1994		1995	
	III	IV	I	II
Gross domestic product:				
Quantity indexes:				
Fixed 1987 weights	4.0	5.1	2.7	1.3
Chain-type annual weights	3.6	4.0	1.7	.7
Benchmark-years weights	3.6	4.1	1.8	.7
Price indexes:				
Fixed 1987 weights	3.0	2.6	3.3	2.8
Chain-type annual weights	2.8	2.5	3.2	2.6
Benchmark-years weights	2.7	2.6	3.3	2.7
Gross domestic purchases:				
Price indexes:				
Fixed 1987 weights	3.5	2.6	3.0	3.2
Chain-type annual weights	3.2	2.4	2.9	3.0
Benchmark-years weights	3.2	2.5	2.9	3.0

NOTE.—Percent changes are found in NIPA table 8.1. Index number levels are found in tables 7.1 and 7.2.

Table 3.—Relation of Gross Domestic Product, Gross National Product, and Command-Basis Gross National Product in Constant Dollars

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter			
		1995:II	1995:I	1995:II	1995:I	1995:II
Gross domestic product	5,487.8	36.3	17.7	2.7	1.3
Plus: Receipts of factor income from the rest of the world	161.4	12.9	5.3	41.2	14.3
Less: Payments of factor income to the rest of the world	175.7	6.9	7.8	18.3	19.9
Equals: Gross national product	5,473.4	42.3	15.1	3.2	1.1
Less: Exports of goods and services and receipts of factor income from the rest of the world	879.0	21.2	16.7	10.5	8.0
Plus: Command-basis exports of goods and services and receipts of factor income	890.7	23.3	13.6	11.4	6.3
Equals: Command-basis gross national product	5,485.2	44.4	12.1	3.3	.9
Addendum:					
Terms of trade ¹	101.3	.2	—4	.8	—1.6

1. Ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in NIPA tables 1.10 and 1.11.

the changes in the fixed-weighted measure of real GDP and in the alternative measures was more than accounted for by purchases of computers, a product whose prices have decreased steadily since 1987. The decrease in change in business inventories reduced the difference between the changes in fixed-weighted measure of GDP and the alternative measures from what it otherwise would have been; inventory prices have increased less than overall prices since 1987.

For prices of gross domestic purchases, both the chain-type measure and the benchmark-years-weighted measure increased 3.0 percent, 0.2 percentage point less than the fixed-weighted measure.

Gross national product (GNP).—Real GNP (as measured using fixed weights) increased 1.1 percent in the second quarter, 0.2 percentage point less than the increase in real GDP (chart 1 and table 3).² Receipts of factor income from the rest of the world increased less than payments of factor income; profits accounted for two-thirds of the increase in receipts, and interest income accounted for more than two-thirds of the increase in payments.

Real GNP on a command basis increased slightly less than real GNP in the second quarter—0.9 percent, compared with 1.1 percent—reflecting a deterioration in the terms of trade.³ In the first

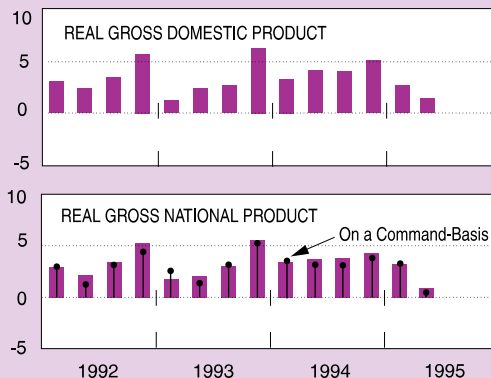
2. GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

3. In the estimation of real GNP, the current-dollar value of exports of goods and services is deflated by export prices, the current-dollar value of

CHART 1

Selected Product Measures: Change From Preceding Quarter

Percent



NOTE.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

quarter, command-basis GNP increased slightly more than GNP—3.3 percent, compared with 3.2 percent—reflecting an improvement in the terms of trade.

Corporate Profits

Profits from current production increased \$11.4 billion in the second quarter after increasing \$9.4 billion in the first (table 4).⁴

imports of goods and services is deflated by import prices, and the current-dollar values of receipts and payments of factor income are deflated primarily by the implicit price deflator for net domestic product. In the estimation of command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar value of exports of goods and services and receipts of factor income is deflated by the implicit price deflator for imports of goods and services and payments of factor income. The terms of trade is measured by the ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports, with the decimal point shifted two places to the right. (Because the terms of trade is based on implicit price deflators, rather than on exchange rates, it may reflect changes both in prices and in the composition of exports and imports.)

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment (IVA), and the capital consumption adjustment (CCAdj); it is shown in NIPA tables 1.14, 1.16, and 6.16C as “corporate profits with IVA and CCAdj.”

Table 4.—Corporate Profits

(Seasonally adjusted at annual rates)

	Level	Change from preceding quarter	
	1995:II	1995:I	1995:II
Billions of dollars			
Profits from current production	581.1	9.4	11.4
Domestic industries	508.8	.4	7.8
Financial	97.7	7.2	−.3
Nonfinancial	411.1	−6.8	8.1
Rest of the world	72.3	9.0	3.6
IVA	−28.2	−6.9	10.8
CCAdj	35.2	−.7	−2.9
Profits before tax	574.1	17.1	3.5
Profits tax liability	220.4	4.4	.4
Profits after tax	353.6	12.8	2.9
Cash flow from current production	595.5	9.1	17.6
Profits by industry:			
Corporate profits with IVA	545.9	10.2	14.3
Domestic industries	473.6	1.2	10.7
Financial	116.2	8.0	1.0
Nonfinancial	357.4	−6.8	9.7
Manufacturing	148.9	−7.0	5.0
Trade	64.0	−2.5	−2.7
Transportation and public utilities	84.5	−.6	6.9
Other	60.0	3.3	.5
Rest of the world	72.3	9.0	3.6
Receipts (inflows)	104.6	9.4	5.2
Payments (outflows)	32.3	.4	1.6
Dollars			
Unit price, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.175	0	0
Unit labor cost .....	.768	.003	−.003
Unit nonlabor cost .....	.281	.001	.001
Unit profits from current production .....	.126	−.003	.001

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

The small step-up was more than accounted for by an upturn in profits from domestic operations of nonfinancial corporations. Unit profits of these corporations rebounded from a first-quarter drop and more than offset a slowdown in the real gross product of nonfinancial corporations. The rebound in unit profits was attributable to unit labor costs, which decreased in the second quarter after increasing in the first; unit prices were unchanged in both quarters.

Profits from domestic operations of financial corporations changed little after increasing. Profits from the rest of the world increased less in the second quarter than in the first.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$17.6 billion after increasing \$9.1 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased to 76.4 percent from 75.4 percent; the increase followed six consecutive decreases.

Industry profits.—Industry profits increased \$14.3 billion after increasing \$10.2 billion.⁵ Profits of nonfinancial industries increased \$9.7 billion after decreasing \$6.8 billion. The upturn was concentrated in the transportation and public utilities group and in nondurable manufacturing; in contrast, profits in trade decreased about as much as in the first quarter, and profits in “other” nonfinancial industries slowed. Profits of financial industries increased \$1.0 billion after increasing \$8.0 billion; the slowdown mainly reflected a downturn in profits of commercial banks.

Profits from the rest of the world increased \$3.6 billion after increasing \$9.0 billion. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. In the second quarter, a slowdown in receipts was accounted for by foreign affiliates in manufacturing and in other nonpetroleum industries; a partly offsetting step-up in payments was accounted for by domestic affiliates in manufacturing and petroleum.

5. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment (IVA); it is shown in NIPA table 6.16C as “corporate profits with IVA.” Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only at highly aggregated levels—that is, for the totals of financial industries and of nonfinancial industries.

Related measures.—Profits before tax increased \$3.5 billion after increasing \$17.1 billion. The difference between this slowdown and the modest step-up in profits from current production is more than accounted for by a downturn in inventory profits, which are represented in the NIPA's (with sign reversed) as the inventory valuation adjustment. The downturn in inventory profits was offset only a little by the capital consumption adjustment, which converts depreciation as reported by business to the measure used in the NIPA's; in the second quarter, the capital consumption adjustment decreased more than in the first.

In the second quarter, profits from the rest of the world accounted for the increase in profits before tax. Before-tax profits from domestic operations changed little, as a small increase in financial corporations was offset by a small decrease in nonfinancial corporations. After-tax profits of domestic corporations also changed little, as dividends increased \$3.1 billion and undistributed profits decreased \$3.6 billion. On a current-production basis, after-tax profits of domestic corporations increased \$7.4 billion; the current-production measure includes the inventory valuation and capital consumption adjustments. 